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August 18, 2008

AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Inflation-Linked Asset Class (ILAC) –Implementation Update
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

BACKGROUND

The purpose of this item is to provide a monthly update to the Investment Committee on the progress of the implementation of the Inflation-Linked Asset Class (ILAC). The ILAC was approved as a pilot program in September 2007. In December 2007 ILAC was approved as a regular asset class and included in the Strategic Policy Allocation with a target of 5% and range of 0% to 5%. The Investment Committee has required that a number of steps need to be in place before proceeding with new investments in ILAC.

PROGRESS

The four investment areas of the ILAC are:

- Commodities
- Inflation-Linked Bonds (ILB)
- Infrastructure, and
- Forestland.

For each investment area, the attached chart (Attachment 1) summarizes progress on the following items:

- Investment Policies
- Staffing/Organization
- Delegations
- Incentive Plan
- Investment Implementation
- Total ILAC Investments
- Consultant Pool

V. AGRICULTURAL LAND INVESTMENT

The existing Investment Policy for Agricultural Land Real Estate Program resides with the Real Estate Unit and the current investment is valued at \$174 million in California vineyard and related properties. The SIO-Asset Allocation and SIO-Real Estate have discussed and are of the view that agricultural land investment is better aligned with Forestland and should be an extension of the Forestland policy. ILAC staff sees opportunities for investment in agricultural land that could enlarge and diversify the assets within ILAC. Forestland, agricultural land, and commodities will fit within a natural resources focus in ILAC. Over the coming weeks, Staff will develop a more robust proposal and will vet this issue with the Board's investment consultants. In consultation with the Board's consultants, Staff will recommend the transfer of the existing agricultural land assets and the related Policy from Real Estate to ILAC at the September 2008 IC meeting.

VI. STRATEGIC PLAN:

This item is consistent with Strategic Plan Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions. This item is also consistent with Goal IX; achieve long-term, sustainable, risk-adjusted returns.

VII. RESULTS/COSTS:

This item is not expected to have any material cost impact other than costs associated with managing the ILAC.

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Real Estate

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Senior Investment Officer-
Asset Allocation

Anne Stausboll
Interim Chief Investment Officer